

ANNUAL BUDGET 2019/20

SETSOTO LOCAL MUNICIPALITY



2019/20 TO 2021/22
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
MM	Municipal Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act

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MSA	Municipal Systems Act
mSCOA	Municipal Standard Chart of Accounts
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

PART 1: Annual Budget

1.1 Mayor's Report

The Executive Mayors report will be handed out during the Budget meeting.

1.2 Executive Summary

The application of sound financial management principles for the compilation of the Municipality financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, accommodation, and catering. Also referring to the Cost containment measures adopted by Council.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 94 were used to guide the compilation of the 2019/20 MTREF. The mSCOA version 6.3 was also introduced with the circulars and thus the budget tables were compiled and reported in terms of the said circulars.

The main challenges experienced during the compilation of the 2019/20 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;

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- Wage increases for municipal staff that continue to exceed consumer inflation (Based on the ongoing negotiations between SALGA and Trade unions), as well as the need to fill critical vacancies.
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2019/20 MTREF process; and

The following budget principles and guidelines directly informed the compilation of the 2019/20 MTREF:

- The 2018/19 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2019/20 annual budget;
- Intermediate service level standards were used to inform the measurable objectives.
- Tariff and property rate increases should be affordable, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of providing water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

1.3 Recommendation

It is recommended that Council at its meeting to be held on 31 May 2019, consider the approval of the 2019/20 budget in terms of section 24 of the MFMA. The annual budget-

- 1.1. Must be approved before the start of the budget year;
 - 1.2. Is approved by the adoption of a Council resolution;
 - 1.3. Must be approved together with the adoption of resolutions-
 - 1.3.1 Imposing any municipal tax for the budget year;
 - 1.3.2 Setting any municipal tariffs for the budget year; and
 - 1.3.3 Approving any changes to the municipality's budget-related policies.
 - 1.4. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are considered;
2. The Council of Setsoto Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) should also consider approving the following for implementation;

- 2.1. the tariffs for property rates – as set out in attached tariff list,
- 2.2. the tariffs for electricity– as set out in attached tariff list, subject to the approval from NERSA,
- 2.3. the tariffs for the supply of water – as set out in attached tariff list
- 2.4. the tariffs for sanitation services – as set out in attached tariff list
- 2.5. the tariffs for solid waste services – as set out in attached tariff list

In view of the aforementioned, the following table is a consolidated overview of the proposed 2019/20 Medium-term Revenue and Expenditure Framework:

1.4 Summary of Operating Revenue and Expenditure

Total operating revenue has grown by **6.3 %** or **R30.737 million** for the 2019/20 financial year when compared to the 2018/19 Adjustment Budget. For the two outer years, operational revenue will increase by **5.3%** and **5.8%** respectively.

Total operating expenditure for the 2019/20 financial year has decreased by **14.1%** or **R97.934 million** and the total amount appropriated is **R598.684 million** including depreciation of R119.015 million and which translates into an operating budgeted deficit of **R76.910 million**.

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FS191 Setsoto - Table A1 Budget Summary

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousands										
Financial Performance										
Property rates	41,090	44,239	64,488	52,700	62,336	–	47,394	62,336	65,453	68,725
Service charges	152,285	171,181	191,716	195,758	211,209	–	160,842	222,550	233,677	245,361
Investment revenue	36	40	2,396	2,277	2,571	–	1,966	1,600	1,680	1,764
Transfers recognised - operational	194,443	170,002	163,386	188,291	177,504	–	177,380	196,383	208,017	223,147
Other own revenue	1,730	2,225	29,938	36,943	37,417	–	30,042	38,905	40,851	42,893
Total Revenue (excluding capital transfers and contributions)	389,585	387,687	451,923	475,969	491,037	–	417,624	521,774	549,677	581,890
Employee costs	169,776	187,599	156,202	230,279	190,597	–	136,961	216,114	216,920	238,266
Remuneration of councillors	10,355	9,896	12,748	–	12,948	–	10,010	13,725	14,411	15,132
Depreciation & asset impairment	217,951	212,220	176,926	252,082	252,082	–	–	119,015	119,015	249,015
Finance charges	947	2,289	5,961	2,740	5,764	–	5,439	7,966	8,364	8,782
Materials and bulk purchases	53,293	72,798	72,397	110,961	104,995	–	63,088	114,193	119,903	125,897
Transfers and grants	8,712	13,838	38,693	685	318	–	20,656	17,314	17,730	18,617
Other expenditure	169,401	140,364	123,566	96,897	129,913	–	47,822	110,357	126,429	132,749
Total Expenditure	630,435	639,005	586,492	693,645	696,618	–	283,976	598,684	622,772	788,458
Surplus/(Deficit)	(240,849)	(251,318)	(134,569)	(217,676)	(205,582)	–	133,649	(76,910)	(73,094)	(206,568)
Transfers and subsidies - capital (monetary allocations) (Na	73,293	103,396	87,509	105,364	108,464	–	116,927	144,924	171,433	164,616
Contributions recognised - capital & contributed assets	20,183	90	–	–	–	–	–	–	–	–
	(147,374)	(147,831)	(47,060)	(112,312)	(97,118)	–	250,576	68,014	98,339	(41,952)
Surplus/(Deficit) after capital transfers & contributions										
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	(147,374)	(147,831)	(47,060)	(112,312)	(97,118)	–	250,576	68,014	98,339	(41,952)

1.5 Operating Revenue Framework

For Setsoto Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 65 per cent (65%) annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The implementation of the new valuation roll;
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

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1.6 Summary of Operating Revenue by source

Table 2 – Summary of Operating Revenue by source

FS191 Setsoto - Table A1 Budget Summary

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousands										
Financial Performance										
Property rates	41,090	44,239	64,488	52,700	62,336	–	47,394	62,336	65,453	68,725
Service charges	152,285	171,181	191,716	195,758	211,209	–	160,842	222,550	233,677	245,361
Investment revenue	36	40	2,396	2,277	2,571	–	1,966	1,600	1,680	1,764
Transfers recognised - operational	194,443	170,002	163,386	188,291	177,504	–	177,380	196,383	208,017	223,147
Other own revenue	1,730	2,225	29,938	36,943	37,417	–	30,042	38,905	40,851	42,893
Total Revenue (excluding capital transfers and contributions)	389,585	387,687	451,923	475,969	491,037	–	417,624	521,774	549,677	581,890

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise **54.5%** of the total revenue mix. In the 2019/20 financial year, revenue from rates and services charges totalled **R284.886 million**. In the above table revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality have been taken into account for both property rates and service charges.

As from 01 July 2018, the new valuation roll was implemented and the overall revenue from assessment rates has increased with more than the average increase of 10%. Conversely the increase will not be equally implemented based on the individual valuation and assessment. The tariff structure has been modified between different categories of properties in order to be aligned to the Municipal Property Rates Act (MPRA), MFMA circulars and other legislations governing the property rates tariffs. Thus, no assessment rate increase has been considered and remains the same as the previous financial year.

Service charges on electricity have been increased with 13% in line with the proposed increase by the National Energy Regulation of South Africa (NERSA) while other service charges were increased with an average of 5%.

The municipality are dependent on non-conditional grants for its existence.

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1.7 Summary of operating expenditure by standard classification item

Table 8 Summary of operating expenditure by standard classification item

FS191 Setsoto - Table A1 Budget Summary										
Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Employee costs	169,776	187,599	156,202	230,279	190,597	–	136,961	216,114	216,920	238,266
Remuneration of councillors	10,355	9,896	12,748	–	12,948	–	10,010	13,725	14,411	15,132
Depreciation & asset impairment	217,951	212,220	176,926	252,082	252,082	–	–	119,015	119,015	249,015
Finance charges	947	2,289	5,961	2,740	5,764	–	5,439	7,966	8,364	8,782
Materials and bulk purchases	53,293	72,798	72,397	110,961	104,995	–	63,088	114,193	119,903	125,897
Transfers and grants	8,712	13,838	38,693	685	318	–	20,656	17,314	17,730	18,617
Other expenditure	169,401	140,364	123,566	96,897	129,913	–	47,822	110,357	126,429	132,749
Total Expenditure	630,435	639,005	586,492	693,645	696,618	–	283,976	598,684	622,772	788,458
Surplus/(Deficit)	(240,849)	(251,318)	(134,569)	(217,676)	(205,582)	–	133,649	(76,910)	(73,094)	(206,568)

The budgeted allocation for employee related costs for the 2019/20 financial year totals R216.114 million (excluding Councillors remuneration) representing a notable increase of 13% when compared to the adjustment budget for the 2018/19 financial year. Filling of critical positions in terms of the approved organisational structure were considered as well as the annual increment based on the ongoing wage negotiations. An increase in the employee related costs is budgeted at an average of 7% and the inclusion of vacant critical positions accumulated an overall increase to 13%.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

Provision of debt impairment for the 2019/20 financial year amounts to **R50.6 million**. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

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Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy as well as the GRAP standards. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years. The recurring audit finding from the Auditor General in terms of the depreciation was also taken into account when compiling the budget.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital) that the municipality has with financial institutions namely DBSA, ABSA and Wesbank. However, the municipality has no intention to acquire any new borrowings in the 2019/20 MTREF.

Bulk purchases are directly informed by the purchase of electricity from Eskom. An increase of 15% has been approved by NERSA.

Other expenditure decreased with 15% or R19.5 million, however the cost containment measures as outlined in the Circular 82 and adopted by the municipal Council still apply.

1.7.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality Indigent Policy. The target is to register 10 000 or more indigent households during the 2019/20 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

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1.8 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure for the 2019/20 Medium Term Revenue & Expenditure Framework;

The Capital budget has also taken into consideration the National priorities.

FS191 Setsoto - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding								2019/20 Medium Term Revenue & Expenditure Framework		
Vote Description	2015/16 Audited Outcome	2016/17 Audited Outcome	2017/18 Audited Outcome	Current Year 2018/19						
R thousand				Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital Expenditure - Functional										
Governance and administration	93,098	11,498	26,987	1,648	3,182	–	301	3,389	4,189	3,389
Executive and council	62,546	0	26,987	348	598	–	301	391	391	391
Finance and administration	30,551	11,498	–	1,243	2,527	–	–	2,983	3,783	2,983
Internal audit	–	–	–	57	57	–	–	15	15	15
Community and public safety	37,268	1,684	550	12,637	12,887	–	376	4,595	5,195	5,371
Community and social services	37,268	1,684	–	–	–	–	376	–	–	–
Sport and recreation	–	–	–	12,348	12,598	–	–	3,765	4,365	4,541
Public safety	–	–	–	–	–	–	–	830	830	830
Housing	–	–	550	290	290	–	–	–	–	–
Health	–	–	–	–	–	–	–	–	–	–
Economic and environmental services	–	38,769	23,933	526	249	–	82,161	1,481	1,481	1,481
Planning and development	–	–	–	100	100	–	25	918	918	918
Road transport	–	38,769	23,933	427	150	–	82,136	562	562	562
Environmental protection	–	–	–	–	–	–	–	–	–	–
Trading services	50,794	58,915	47,648	7,156	133,209	–	25,242	161,717	187,626	180,633
Energy sources	5,503	6,975	–	1,442	18,284	–	1,442	17,225	17,225	17,225
Water management	23,934	51,850	47,648	–	114,003	–	18,086	95,453	118,815	108,157
Waste water management	752	–	–	4,307	422	–	4,307	422	422	422
Waste management	20,606	90	–	1,406	501	–	1,406	48,617	51,164	54,830
Other	–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Functional	181,160	110,866	99,118	21,968	149,527	–	108,080	171,182	198,491	190,874
Funded by:										
National Government	112,353	97,594	71,580	–	126,444	–	108,080	144,924	171,443	164,616
Provincial Government	–	–	–	–	–	–	–	–	–	–
District Municipality	–	–	–	–	–	–	–	–	–	–
Other transfers and grants	37,268	90	3,512	–	–	–	–	–	–	–
Transfers recognised - capital	149,621	97,684	75,092	–	126,444	–	108,080	144,924	171,443	164,616
Borrowing	–	7,903	23,966	–	–	–	–	–	–	–
Internally generated funds	31,540	5,279	60	–	23,083	–	–	26,258	27,048	26,258
Total Capital Funding	181,160	110,866	99,118	–	149,527	–	108,080	171,182	198,491	190,874

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The Regional Bulk and Infrastructure Grant (RBIG) allocation of R70.1 million has been allocated to the construction of the Central water treatment works in Senekal with all rising main to the new water treatment works.

The Municipal Infrastructure Grant (MIG) allocation of R47.2 million has been allocated to different infrastructure projects.

The Water and Sanitation Infrastructure Grant (WSIG) allocation of R25 million has been budgeted for upgrading of 7km Sewer pipe line -Van Soelen Street.

Whilst the Integrated National Energy Grant (INEG) allocation of R2.6 million is earmarked for the electrification network.

1.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality website.
2. Internship programme
The Municipality is participating in the Municipal Financial Management Internship programme and has employed three interns undergoing training in various divisions of the Financial Services Department.
3. Budget and Treasury Office
The Budget and Treasury Office has been established in accordance with the MFMA and it is headed by the Chief Financial Officer. The Budget steering committee was also established.
4. Audit and Risk Committees
An Audit and Risk Committees have been established and are fully functional.
5. Service Delivery and Implementation Plan
The detail SDBIP document is at a draft stage and will be finalised after approval of the 2019/20 MTREF in May 2019 directly aligned and informed by the 2019/20 MTREF.

6. Annual Report
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. MFMA Training
The MFMA training module in electronic format is presented at the Municipality internal centre and training is ongoing.
8. Policies
An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

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1.10 Funding credibility on cash flow

The following table illustrate that based on the collection rate of service charges the budget are cash funded.

Table 10 – Summary of Operating Revenue and Expenditure cash flow

FS191 Setsoto - Table A7 Budgeted Cash Flows										
Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Property rates	32,517	31,395	55,060	48,484	59,455	50,152	24,684	62,336	65,453	68,725
Service charges	110,620	107,056	75,449	195,758	211,209	177,842	72,434	222,550	233,677	245,361
Other revenue	26,714	10,088	4,379	7,394	6,336	–	4,095	6,261	6,574	6,903
Government - operating	177,652	170,002	157,206	188,291	177,504	–	177,380	196,383	208,017	223,147
Government - capital	90,084	103,396	87,509	105,364	108,464	–	116,927	144,924	171,433	164,616
Interest	19,134	21,498	2,396	31,790	33,593	–	26,321	34,173	35,882	37,676
Dividends	36	40	51	37	60	–	60	71	75	78
Payments										
Suppliers and employees	(350,946)	(354,541)	(298,111)	(438,137)	(438,453)	(338,639)	(353,568)	(454,390)	(477,663)	(512,044)
Finance charges	(947)	(2,289)	(5,961)	(2,740)	(5,764)	–	(5,439)	(7,966)	(8,364)	(8,782)
Transfers and Grants	–	–	–	(685)	(318)	–	(20,656)	(17,314)	(17,730)	(18,617)
NET CASH FROM/(USED) OPERATING ACTIVITIES	104,864	86,645	77,978	135,555	152,084	(110,645)	42,237	187,028	217,353	207,063
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE	–	–	–	–	–	–	1,533	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables	–	–	–	–	(1,400)	141,327	(386)	(1,600)	(1,600)	(800)
Decrease (increase) in non-current investments	–	–	–	–	–	2,574	(82,231)	–	–	–
Payments										
Capital assets	(99,603)	(97,077)	(98,743)	(136,725)	(148,127)	–	38,389	(170,382)	(196,891)	(190,074)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(99,603)	(97,077)	(98,743)	(136,725)	(149,527)	143,901	(42,695)	(171,982)	(198,491)	(190,874)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans	–	–	–	–	–	6,813	–	–	–	–
Borrowing long term/refinancing	–	–	19,062	–	–	–	7,790	–	–	–
Increase (decrease) in consumer deposits	–	–	–	–	–	(2,788)	402	–	–	–
Payments										
Repayment of borrowing	(627)	(560)	–	–	–	(26,280)	(5,865)	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES	(627)	(560)	19,062	–	–	(22,255)	2,326	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD	4,633	(10,992)	(1,703)	(1,170)	2,556	11,000	1,868	15,047	18,862	16,189
Cash/cash equivalents at the year begin:	3,702	3,666	2,081	–	–	1,283	1,283	–	15,047	33,909
Cash/cash equivalents at the year end:	8,335	(7,326)	378	(1,170)	2,556	12,284	3,152	15,047	33,909	50,098

Setsoto Local Municipality – Annual Budget & MTREF 2019/20

FS191 Setsoto - Supporting Table SA30 Budgeted monthly cash flow																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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1.11 Municipal manager's quality certificate

I, S T R Ramakarane, Municipal Manager of Setsoto Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name S T R RAMAKARANE _____

Municipal manager of Setsoto Municipality (FS191)

Signature _____

Date _____

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2017) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled the budget key timelines before Council meeting outlining the key activities to be undertaken with strict timeliness. The draft annual budget was tabled in Council on the 28 March 2019 and thereafter the budget was made public for the local community and other spheres of government. The mayoral budget roadshow for local community took place on the week of 23 – 26 April 2019 in all the towns and townships of the Setsoto Local Municipality. The inputs made at these consultation were also taken into consideration in finalising the annual budget.

Setsoto Local Municipality – Annual Budget & MTREF 2019/20

FS191 Setsoto - Table A1 Budget Summary

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousands										
Financial Performance										
Property rates	41,090	44,239	64,488	52,700	62,336	–	47,394	62,336	65,453	68,725
Service charges	152,285	171,181	191,716	195,758	211,209	–	160,842	222,550	233,677	245,361
Investment revenue	36	40	2,396	2,277	2,571	–	1,966	1,600	1,680	1,764
Transfers recognised - operational	194,443	170,002	163,386	188,291	177,504	–	177,380	196,383	208,017	223,147
Other own revenue	1,730	2,225	29,938	36,943	37,417	–	30,042	38,905	40,851	42,893
Total Revenue (excluding capital transfers and contributions)	389,585	387,687	451,923	475,969	491,037	–	417,624	521,774	549,677	581,890
Employee costs	169,776	187,599	156,202	230,279	190,597	–	136,961	216,114	216,920	238,266
Remuneration of councillors	10,355	9,896	12,748	–	12,948	–	10,010	13,725	14,411	15,132
Depreciation & asset impairment	217,951	212,220	176,926	252,082	252,082	–	–	119,015	119,015	249,015
Finance charges	947	2,289	5,961	2,740	5,764	–	5,439	7,966	8,364	8,782
Materials and bulk purchases	53,293	72,798	72,397	110,961	104,995	–	63,088	114,193	119,903	125,897
Transfers and grants	8,712	13,838	38,693	685	318	–	20,656	17,314	17,730	18,617
Other expenditure	169,401	140,364	123,566	96,897	129,913	–	47,822	110,357	126,429	132,749
Total Expenditure	630,435	639,005	586,492	693,645	696,618	–	283,976	598,684	622,772	788,458
Surplus/(Deficit)	(240,849)	(251,318)	(134,569)	(217,676)	(205,582)	–	133,649	(76,910)	(73,094)	(206,568)
Transfers and subsidies - capital (monetary allocations) (Na	73,293	103,396	87,509	105,364	108,464	–	116,927	144,924	171,433	164,616
Contributions recognised - capital & contributed assets	20,183	90	–	–	–	–	–	–	–	–
	(147,374)	(147,831)	(47,060)	(112,312)	(97,118)	–	250,576	68,014	98,339	(41,952)
Surplus/(Deficit) after capital transfers & contributions	–	–	–	–	–	–	–	–	–	–
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	(147,374)	(147,831)	(47,060)	(112,312)	(97,118)	–	250,576	68,014	98,339	(41,952)

Setsoto Local Municipality – Annual Budget & MTREF 2019/20

FS191 Setsoto - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)

Functional Classification Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand	1									
Revenue - Functional										
<i>Governance and administration</i>		117,426	86,572	145,094	144,832	149,150	–	155,160	163,871	173,505
Executive and council		34,729	17,418	45,588	51,790	49,245	–	54,467	58,251	62,448
Finance and administration		82,697	69,155	99,506	93,043	99,904	–	100,693	105,620	111,056
Internal audit		–	–	(0)	–	–	–	–	–	–
<i>Community and public safety</i>		3,677	6,705	2,674	1,897	1,562	–	1,250	1,312	1,378
Community and social services		548	579	786	527	1,114	–	1,169	1,228	1,289
Sport and recreation		50	37	11	50	39	–	41	43	45
Public safety		2,229	5,382	1,750	682	394	–	23	24	25
Housing		850	707	127	638	16	–	17	17	18
Health		–	–	–	–	–	–	–	–	–
<i>Economic and environmental services</i>		51,864	18,585	25,878	42,655	58,973	–	102,267	124,600	114,838
Planning and development		20,391	39	188	12,158	30,038	–	70,161	92,150	80,045
Road transport		31,473	18,546	25,690	30,497	28,934	–	32,106	32,450	34,793
Environmental protection		–	–	–	–	–	–	–	–	–
<i>Trading services</i>		325,187	394,211	364,874	391,950	389,816	–	408,021	431,327	456,786
Energy sources		101,163	91,259	93,624	102,189	99,278	–	108,068	114,388	120,664
Water management		140,306	222,349	158,421	179,390	166,871	–	167,296	176,568	187,426
Waste water management		37,329	34,819	54,619	57,077	62,988	–	67,783	71,805	76,161
Waste management		46,389	45,784	58,211	53,293	60,679	–	64,875	68,566	72,535
<i>Other</i>	4	–	–	–	–	–	–	–	–	–
Total Revenue - Functional	2	498,155	506,074	538,520	581,333	599,501	–	666,698	721,110	746,506
Expenditure - Functional										
<i>Governance and administration</i>		114,332	137,323	150,459	137,174	131,598	–	169,815	171,660	178,985
Executive and council		38,543	52,073	35,741	35,758	39,613	–	54,029	50,384	52,902
Finance and administration		71,939	81,540	110,738	90,591	82,397	–	110,951	116,199	120,753
Internal audit		3,849	3,710	3,979	10,825	9,588	–	4,835	5,076	5,330
<i>Community and public safety</i>		44,400	40,902	46,430	59,049	49,793	–	46,677	48,854	51,139
Community and social services		4,957	4,941	6,074	7,644	5,692	–	11,344	11,878	12,438
Sport and recreation		16,933	17,544	9,799	11,618	8,163	–	9,516	9,992	10,491
Public safety		9,573	9,699	19,464	20,774	19,044	–	11,462	12,035	12,636
Housing		12,420	8,029	9,153	18,394	16,276	–	13,738	14,332	14,956
Health		518	689	1,940	618	618	–	618	618	618
<i>Economic and environmental services</i>		229,954	214,990	183,551	282,461	271,782	–	153,504	156,051	288,672
Planning and development		6,763	6,761	6,183	10,594	8,703	–	11,235	11,849	12,441
Road transport		223,191	208,229	177,368	271,867	263,079	–	142,269	144,202	276,231
Environmental protection		–	–	–	–	–	–	–	–	–
<i>Trading services</i>		236,180	237,439	205,141	214,961	243,445	–	228,689	246,208	269,662
Energy sources		56,333	81,206	64,686	97,383	96,430	–	95,002	99,751	104,737
Water management		97,775	73,372	63,813	57,554	72,131	–	54,506	63,502	77,051
Waste water management		37,797	38,576	25,999	20,764	26,172	–	43,994	46,024	48,155
Waste management		44,275	44,285	50,643	39,261	48,713	–	35,186	36,931	39,718
<i>Other</i>	4	–	–	–	–	–	–	–	–	–
Total Expenditure - Functional	3	624,866	630,655	585,581	693,645	696,618	–	598,684	622,772	788,458
Surplus/(Deficit) for the year		(126,712)	(124,581)	(47,060)	(112,312)	(97,118)	–	68,014	98,338	(41,952)

Setsoto Local Municipality – Annual Budget & MTREF 2019/20

FS191 Setsoto - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand	1										
Revenue By Source											
Property rates	2	41,090	44,239	64,488	52,700	62,336	–	47,394	62,336	65,453	68,725
Service charges - electricity revenue	2	63,626	62,935	68,345	79,795	78,033	–	60,709	82,715	86,851	91,193
Service charges - water revenue	2	40,326	49,379	55,215	57,972	61,610	–	46,439	64,691	67,925	71,322
Service charges - sanitation revenue	2	21,382	25,374	28,420	26,371	31,449	–	23,595	33,021	34,672	36,406
Service charges - refuse revenue	2	26,950	33,493	39,736	31,620	40,117	–	30,099	42,122	44,228	46,440
Rental of facilities and equipment		–	–	161	735	166	–	104	175	184	193
Interest earned - external investments		36	40	2,396	2,277	2,571	–	1,966	1,600	1,680	1,764
Interest earned - outstanding debtors		–	–	24,177	29,513	31,022	–	24,355	32,573	34,202	35,912
Dividends received		36	40	51	37	60	–	60	71	75	78
Fines, penalties and forfeits		2,164	2,463	1,689	632	276	–	268	–	–	–
Licences and permits		100	39	190	37	38	–	22	40	42	45
Agency services		–	–	–	–	–	–	–	–	–	–
Transfers and subsidies		194,443	170,002	163,386	188,291	177,504	–	177,380	196,383	208,017	223,147
Other revenue	2	2,804	6,180	3,560	5,990	5,854	–	3,700	6,046	6,349	6,666
Gains on disposal of PPE		(3,374)	(6,497)	110	–	–	–	1,533	–	–	–
Total Revenue (excluding capital transfers and contributions)		389,585	387,687	451,923	475,969	491,037	–	417,624	521,774	549,677	581,890
Expenditure By Type											
Employee related costs	2	169,776	187,599	156,202	230,279	190,597	–	136,961	216,114	216,920	238,266
Remuneration of councillors		10,355	9,896	12,748	–	12,948	–	10,010	13,725	14,411	15,132
Debt impairment	3	84,546	69,861	79,723	59,024	97,023	–	22,926	50,673	63,706	66,892
Depreciation & asset impairment	2	217,951	212,220	176,926	252,082	252,082	–	–	119,015	119,015	249,015
Finance charges		947	2,289	5,961	2,740	5,764	–	5,439	7,966	8,364	8,782
Bulk purchases	2	53,293	72,798	53,990	70,618	70,618	–	52,748	76,974	80,822	84,863
Other materials	8	–	–	18,407	40,343	34,377	–	10,340	37,219	39,080	41,034
Contracted services		18,201	24,659	42,039	36,903	31,708	–	24,164	59,685	62,722	65,857
Transfers and subsidies		8,712	13,838	38,693	685	318	–	20,656	17,314	17,730	18,617
Other expenditure	4, 5	66,654	45,586	892	970	1,182	–	732	–	–	–
Loss on disposal of PPE		–	258	912	–	–	–	–	–	–	–
Total Expenditure		630,435	639,005	586,492	693,645	696,618	–	283,976	598,684	622,772	788,458
Surplus/(Deficit)											
		(240,849)	(251,318)	(134,569)	(217,676)	(205,582)	–	133,649	(76,910)	(73,095)	(206,568)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		73,293	103,396	87,509	105,364	108,464	–	116,927	144,924	171,433	164,616
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	20,183	90	–	–	–	–	–	–	–	–
Transfers and subsidies - capital (in-kind - all)		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions		(147,374)	(147,831)	(47,060)	(112,312)	(97,118)	–	250,576	68,014	98,338	(41,952)

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FS191 Setsoto - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital Expenditure - Functional										
Governance and administration	93,098	11,498	26,987	1,648	3,182	–	301	3,389	4,189	3,389
Executive and council	62,546	0	26,987	348	598	–	301	391	391	391
Finance and administration	30,551	11,498	–	1,243	2,527	–	–	2,983	3,783	2,983
Internal audit	–	–	–	57	57	–	–	15	15	15
Community and public safety	37,268	1,684	550	12,637	12,887	–	376	4,595	5,195	5,371
Community and social services	37,268	1,684	–	–	–	–	376	–	–	–
Sport and recreation	–	–	–	12,348	12,598	–	–	3,765	4,365	4,541
Public safety	–	–	–	–	–	–	–	830	830	830
Housing	–	–	550	290	290	–	–	–	–	–
Health	–	–	–	–	–	–	–	–	–	–
Economic and environmental services	–	38,769	23,933	526	249	–	82,161	1,481	1,481	1,481
Planning and development	–	–	–	100	100	–	25	918	918	918
Road transport	–	38,769	23,933	427	150	–	82,136	562	562	562
Environmental protection	–	–	–	–	–	–	–	–	–	–
Trading services	50,794	58,915	47,648	7,156	133,209	–	25,242	161,717	187,626	180,633
Energy sources	5,503	6,975	–	1,442	18,284	–	1,442	17,225	17,225	17,225
Water management	23,934	51,850	47,648	–	114,003	–	18,086	95,453	118,815	108,157
Waste water management	752	–	–	4,307	422	–	4,307	422	422	422
Waste management	20,606	90	–	1,406	501	–	1,406	48,617	51,164	54,830
Other	–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Functional	181,160	110,866	99,118	21,968	149,527	–	108,080	171,182	198,491	190,874
Funded by:										
National Government	112,353	97,594	71,580	–	126,444	–	108,080	144,924	171,443	164,616
Provincial Government	–	–	–	–	–	–	–	–	–	–
District Municipality	–	–	–	–	–	–	–	–	–	–
Other transfers and grants	37,268	90	3,512	–	–	–	–	–	–	–
Transfers recognised - capital	149,621	97,684	75,092	–	126,444	–	108,080	144,924	171,443	164,616
Borrowing	–	7,903	23,966	–	–	–	–	–	–	–
Internally generated funds	31,540	5,279	60	–	23,083	–	–	26,258	27,048	26,258
Total Capital Funding	181,160	110,866	99,118	–	149,527	–	108,080	171,182	198,491	190,874

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FS191 Setsoto - Table A7 Budgeted Cash Flows										
Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Property rates	32,517	31,395	55,060	48,484	59,455	50,152	24,684	62,336	65,453	68,725
Service charges	110,620	107,056	75,449	195,758	211,209	177,842	72,434	222,550	233,677	245,361
Other revenue	26,714	10,088	4,379	7,394	6,336	–	4,095	6,261	6,574	6,903
Government - operating	177,652	170,002	157,206	188,291	177,504	–	177,380	196,383	208,017	223,147
Government - capital	90,084	103,396	87,509	105,364	108,464	–	116,927	144,924	171,433	164,616
Interest	19,134	21,498	2,396	31,790	33,593	–	26,321	34,173	35,882	37,676
Dividends	36	40	51	37	60	–	60	71	75	78
Payments										
Suppliers and employees	(350,946)	(354,541)	(298,111)	(438,137)	(438,453)	(338,639)	(353,568)	(454,390)	(477,663)	(512,044)
Finance charges	(947)	(2,289)	(5,961)	(2,740)	(5,764)	–	(5,439)	(7,966)	(8,364)	(8,782)
Transfers and Grants	–	–	–	(685)	(318)	–	(20,656)	(17,314)	(17,730)	(18,617)
NET CASH FROM/(USED) OPERATING ACTIVITIES	104,864	86,645	77,978	135,555	152,084	(110,645)	42,237	187,028	217,353	207,063
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE	–	–	–	–	–	–	1,533	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables	–	–	–	–	(1,400)	141,327	(386)	(1,600)	(1,600)	(800)
Decrease (increase) in non-current investments	–	–	–	–	–	2,574	(82,231)	–	–	–
Payments										
Capital assets	(99,603)	(97,077)	(98,743)	(136,725)	(148,127)	–	38,389	(170,382)	(196,891)	(190,074)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(99,603)	(97,077)	(98,743)	(136,725)	(149,527)	143,901	(42,695)	(171,982)	(198,491)	(190,874)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans	–	–	–	–	–	6,813	–	–	–	–
Borrowing long term/refinancing	–	–	19,062	–	–	–	7,790	–	–	–
Increase (decrease) in consumer deposits	–	–	–	–	–	(2,788)	402	–	–	–
Payments										
Repayment of borrowing	(627)	(560)	–	–	–	(26,280)	(5,865)	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES	(627)	(560)	19,062	–	–	(22,255)	2,326	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD	4,633	(10,992)	(1,703)	(1,170)	2,556	11,000	1,868	15,047	18,862	16,189
Cash/cash equivalents at the year begin:	3,702	3,666	2,081	–	–	1,283	1,283	–	15,047	33,909
Cash/cash equivalents at the year end:	8,335	(7,326)	378	(1,170)	2,556	12,284	3,152	15,047	33,909	50,098

2.2 Overview of budget related policies

The municipal budget related policies have been reviewed and are attached to the budget.

2.3 List of Tariffs

The municipal budget was compiled using the attached Tariff list.